Joint Economic Committee
WEEKLY ECONOMIC DIGEST
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair
December 10, 2007

ECONOMIC NEWS

Limited Employment Gains and Stagnant Wages

The economy added 94,000 new jobs last month. The share of the population with a job—the employment rate—rose by 0.3 percentage points in November, but remains 0.4 percentage points below where it was last December 2006 and 1.7 percentage points below its peak in April 2000. If the employment rate matched the April 2000 level, there would be nearly 4 million additional jobs.

The housing bust and credit squeeze are leading to falling employment in housing-related sectors and credit services. Construction lost 24,000 jobs last month and 121,000 over the past year. Most of the losses occurred in residential construction and residential specialty trade contractors. "Credit intermediation" employment, which includes mortgage lending, has been falling sharply for the past few months and lost another 13,000 jobs last month.

Wages barely kept pace with inflation in November. Hourly wages grew by an annualized quarterly rate of 2.8 percent, barely keeping pace with inflation. After rising sharply at the end of 2006, wage growth has slowed considerably in 2007.

The Labor Department reported that nonfarm business productivity—output per hour of work—increased 6.3 percent in the third quarter. This is the largest productivity gain since the third quarter of 2003. However, this increase may not indicate a permanent change in productivity growth. Part of the increase is attributable to a decline in hours worked – which fell by 0.6 percent. In addition, significant parts of third quarter output growth came from sources that may not be sustained, such as household consumption demand.

IN FOCUS

Employment Weakness

The rate of job creation has been paltry over this economic recovery. Over the past year, the economy has added an average of 127,000 jobs each month, less than half the typical number of jobs created during the 1990s economic expansion. This is part of a longer trend: Figure 1 shows that the current business cycle, which dates from the Q1 2001 peak, has created fewer jobs than the three prior business cycles that lasted 80 months or more, which includes the cycles that peaked in Q2 1960, Q3 1981 and Q3 1990. Over this economic recovery, payrolls have only grown by 4.5 percent, whereas by this point in the other business cycles, payrolls had grown by 15 percent.

However, the lackluster job creation in this economic recovery shown in Figure 1 may actually be overstated. In the survey of how many people are on the payrolls of business establishments, the Bureau of Labor Statistics (BLS) uses a statistical model to predict how many new firms are established and how many go out of business each month. When the economy turns from expansion to contraction, these models tend to overstate the number of new businesses created and understate the number of firms closing.

Another indication that the establishment survey may be overstating employment gains comes from the measure of employment that the BLS provides each month from the household survey. Recently, the household survey has been showing slower employment growth than the establishment survey. Over the past year, the household survey

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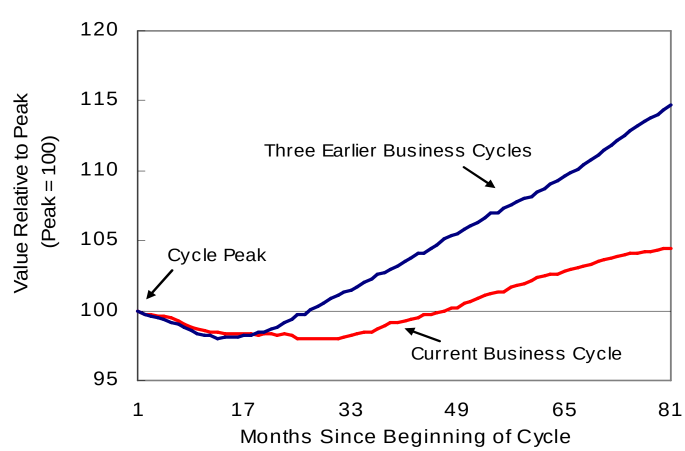
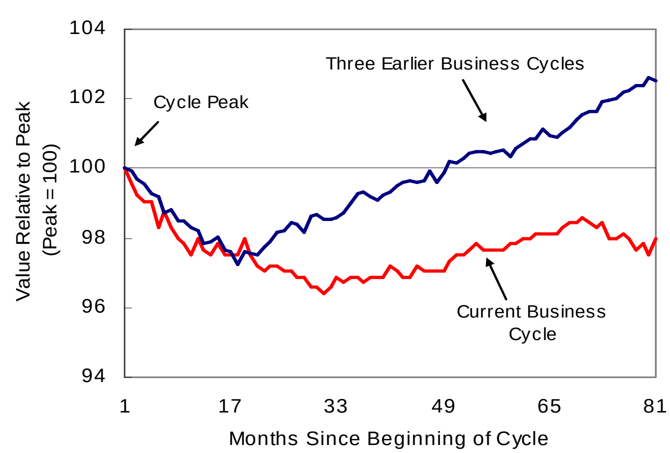
Figure 1: Total Nonfarm Payroll Employment



Source: Bureau of Labor Statistics, Department of Labor.

Figure 2: Employment-Population Ratio



Source: Bureau of Labor Statistics, Department of Labor.

THE WEEK AHEAD

DAY	RELEASE
Tuesday, Dec 11	Federal Open Market Committee statement on monetary policy
Wednesday, Dec 12	U.S. Import and Export Price Indexes (November 2007) U.S. International Trade in Goods and Services (October 2007)
Thursday, Dec 13	Advance Monthly Sales for Retail and Food Services (November 2007) Producer Price Index and Core Producer Price Index (November 2007)
Friday, Dec 14	Consumer Price Index and Core Consumer Price Index (November 2007) Industrial Production and Capacity Utilization (October 2007)

Tuesday Dec 11th: Fed Funds Rate Announcement

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Nov	Oct	Sep	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	4.9	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.7	4.7	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	4.9	2.2	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.1	3.5	3.1	3.1	3.3
CPI-U Inflation (%)	n.a.	3.7	3.7	1.9	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	n.a.	2.4	2.4	2.5	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

has reported employment growth of 0.7 percent, but payroll employment has grown by 1.1 percent. This discrepancy may be simply statistical error or it may be caused by differences in estimation techniques.

We will not know with certainty if payroll jobs have been overestimated until the benchmark revisions are released in March 2008. However, the preliminary benchmarks indicate that employment is being overstated by about 25,000 jobs per month. If the preliminary data are correct, this means that the economy has added only about 100,000 jobs per month this year, which is considerably less than during prior economic recoveries.

Regardless of which survey we use, however, after recovering from the brief recession that began in 2001, employment growth has lagged behind rates from prior business cycle expansions. Unlike prior business cycles, the employment rate has yet to return to its pre-recession peak. Figure 2 shows the change in the share of people with a job—the employment rate—over this economic recovery and three earlier business cycles that lasted at least 79 months. Over the past year, the employment rate has been falling, and although it saw a slight uptick this month, the trend appears be heading towards lower employment gains.